

## FLEXICURITY STRATEGIES ON THE ECONOMIC CRISIS BACKGROUND<sup>1</sup>

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### ***Abstract***

*The flexicurity concept – a combination of flexibility and security strategies, specific to each country – is a successful outcome<sup>2</sup> of the 2010 Lisbon Strategy. Ever since 2000, this concept has been implemented for continuing the European labour markets reform. The conclusion of the Mission for Flexicurity<sup>3</sup> is that the European labour markets challenges have not changed, therefore flexicurity is the strategy to be further implemented in order to align to the new competition requirements, providing also the necessary social protection, especially on the current economic crisis background.*

*The paper addresses the flexicurity concept development, the implications of the flexicurity strategies and of the steps taken on the European Union Member States labour markets, on the economic crisis background.*

**Key-words:** *flexicurity, economic crisis, unemployment, employment*

**JEL Classification:** J00, J20, J40, J50

### **Introduction**

Flexicurity, primarily developed in the Scandinavian countries, is suggested by the European Union leaders and by the European Commission as a solution for issues regarding employment. The „flexicurity” strategies are successful outcomes of 2010 Lisbon Strategy. A few important data reflecting the flexicurity concept development are provided below, as follows:

➤ **November 2006** – The *Green Paper* public commission on the labour market reform in the EU Member States;

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<sup>1</sup> Paper included in the 91-038 project *Tools for promoting the flexibility and security strategy (flexicurity) and for reducing market segmentation*, Project Manager Daniela Pașnicu.

<sup>2</sup> Lisbon Strategy review document, EC working document CE, 2.2.2010, p. 3.

<sup>3</sup> „Report of the Mission for flexicurity”, The Council of the European Union, Brussels, 12 December 2008.

➤ **27 June 2007** – The Commission’s Communiqué „*Common principles of flexicurity: more and better jobs through flexibility and security*”;

➤ **29 November 2007** – The European Parliament resolution on the Common principles of flexicurity;

➤ **5 December 2007** – The European Council enforcing the eight principles of flexicurity;

➤ **1 February 2008** – The “Mission for Flexicurity” – an action plan including visits in 4-5 states in order to supervise the implementation of flexicurity strategies at national level – is launched;

➤ **March 2008** – The European Council supports the new guidelines of the Lisbon Strategy which include references to the common principles of flexicurity and the national action plans;

➤ **August 2008** – The EU Council of Ministers adopts the guidelines recommended in the Commission’s Communiqué, in order to increase the labour markets efficiency;

➤ **12 December 2008** – The Mission for Flexicurity presents the final report, yet the action plan elaboration is postponed following the economic recession;

➤ **8 June 2009** – The Council adopts the conclusions on „flexicurity in times of recession”.

The question raised is whether on the background of the current economic crisis, implementing flexicurity will remain a priority in the European Union institutions through economic recovery packages and solidarity funds. Despite many voices in favour of maintaining<sup>4</sup> flexicurity as a symbol of the EU policy, still it is unclear in the 2010 context – a new EU strategy, a new European Parliament and a new European Commission – how far the EU institutions and leaders are willing to go in that direction.

### **The flexicurity concept in the 2010 and 2020 Strategies context**

Flexicurity is defined in the European Commission’s Communiqué from June 2007 as an integrated strategy of simultaneously consolidating flexibility and security on the labour market. The flexicurity concept is developed starting from the idea that the two dimensions of the labour market – flexibility and security – are not opposed, but complementary, especially on the background of the latest major challenges: globalisation, technological progress, ageing and labour market segmentation.

Flexicurity has been a highly discussed topic over the last ten years and has been differently perceived by every person involved in the debate. Due to its multidimensional character and to the complex and integrated approach, flexicurity is difficult to be analysed from an analytical perspective, requiring broad consensus. Nevertheless, according to the European Commission, the flexicurity

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<sup>4</sup>The 2020 European Strategy, the final report of the Mission for Flexicurity, Europe’s economic priorities 2010-2015 and the like.

strategy is a success<sup>5</sup>, reflecting its capacity to reach a broad consensus, to stimulate and contribute to political debates, as well as to give rise to mutually accepted solutions.

On the current background, the main outcome of the Mission for Flexicurity<sup>6</sup> outlines that implementing flexicurity is even more appropriate in an unfavourable economic context, that the social partners' role in setting national guidelines for implementing flexicurity is crucial. Estimated trends on the labour market and the employment requirements are highly relevant for adjusting the components of the flexicurity strategies. The Report concludes that the long-term challenges have not changed and that *“flexicurity is without doubt the strategy that European labour markets must adopt in order to adapt to new requirements, while providing the necessary degree of protection, particularly in the current context of economic slowdown”*.

However, the social partners claim<sup>7</sup> that the flexicurity strategy must be re-thought. The participants in the Tripartite Social Summit stress that during the economic recession, increased employment is the key to economic recovery and that efficient and creative guidelines must be developed in order to bring people back to work. Experts believe that the flexicurity principles still stand, yet a series of steps must be taken, on the economic crisis background, in order to rejuvenate the labour markets. Presently, given the downbeat employment outlook, some workers enjoy high levels of security, with almost no flexibility, while another part of the European workforce is highly flexible, but regrettably insecure. Therefore, we must re-think flexicurity as a state in which all workers enjoy a fair balance of flexibility and security and are ready to meet the changing needs of the labour markets.

The document addressed to the European Commission, on Europe's economic priorities 2010-2015<sup>8</sup> outlines the need for EU further promoting flexicurity, but at the same time, warns that flexicurity strategies lose field on the economic crisis background. On the one hand, in 2010 the labour market will be characterized by an unusually low flexibility, for given the increased unemployment rate in all sectors, the major quality of flexibility – transferring the workforce from the economically affected sectors to the ones recording a progress – is likely to lose relevance on the economic recession background. On the other hand, in those countries promoting flexible labour rules (Great Britain, Ireland and the like) unemployment will reach significant levels, therefore both flexibility advantages and the governments' financial resources to support the unemployed are questioned.

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<sup>5</sup> Lisbon Strategy review document, EC working document CE, 2.2.2010, p. 3.

<sup>6</sup> Presided over by Commissioner Vladimir Spidla and by Gerard Larcher, December 2008.

<sup>7</sup> Tripartite Social Summit, 25 March 2010.

<sup>8</sup> Andre Sapir, s.a., *Europe's Economic Priorities 2010-2015: Memos to the New Commission*, Bruegel, March 2010.

However, once the crisis overcome, some economic sectors will experience progress, while others will record the same or even reduced levels. The economic growth rate will greatly depend on how easily the workforce will be transferred to the economically developing sectors. If, following rigid labour rules the workforce will be maintained in the less productive sectors, the economic growth will take the shape of a very slowly process.

Ton Wilthagen<sup>9</sup> claims that flexicurity has proven to be a “sunny weather” concept (economic progress stage). But how about flexicurity in “bad weather” (economic recession stage)? He advances several guidelines to be followed in this unfavourable context (table 1).

Table 1

**The economic crisis and the flexibility and security modalities**

Security Flexibility	Job security	Employment security	Income (social) security	Combined security (work and care)
External numerical flexibility (hiring – firing)	Temporary placement in other companies	Mobility centres; Worker pools	Unemployment benefit as wage subsidy; Retirement; Lower tax	Mortgage support
Internal numerical flexibility (working time flexibility)	<b>Shorter working hours; WT accounts</b>	Multi-employerhip	<b>Part-time unemployment benefit, reduced working hours</b>	<b>Take up of leave schemes holidays, extra days off</b>
Functional (employability)	Job rotation	Internship in other companies; Retraining	Retraining for a new job	Accreditation of prior learning
Variable pay	Wage adjustment	Supplement wage new job	Extra unemployment benefits; private savings	Increased family allowance

Source: Ton Wilthagen, *Flexicurity in the crisis: the case of short-time working arrangements*, European

**Labour market developments in the European Union Member States and the flexicurity principles implementation in order to manage the economic crisis impact**

Between the second quarter of 2008 and the second quarter of 2009, all European Union Member States, except for Poland were struck by a significant

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<sup>9</sup> Ton Wilthagen, *Flexicurity in the Crisis: the Case of Short-time Working Arrangements*, European Employment Observatory, Occasional workshop on Short-Time Working Arrangements, 13 January 2010.

economic recession. Both EU27 and the Euro Zone record a decrease in the GDP by almost 5%. This impacted considerably the labour market, where the reduced workforce demand led to major layoffs and increased unemployment rates. Given the fall in GDP, most European Union Member States faced reduced employment. The only country recording increased employment rates in that period was Luxembourg.

However, the output sector was much more affected than the employment one. The elasticity coefficient generally indicates an inflexible variation of the employed in relation to the GDP ( $|E_{POC/PIB}| < 1$ ). This translates in the fact that employers, in order to protect their human capital, avoided layoffs turning to part-time employment or reduced working hours. E

Nevertheless, there are three countries facing a more serious fall in employment compared to the decrease in GDP, namely: Greece, Spain and Ireland. A special case is Poland which, despite of the increase in GDP by 1,1%, adjusted its workforce by 0,7%.

Table 2

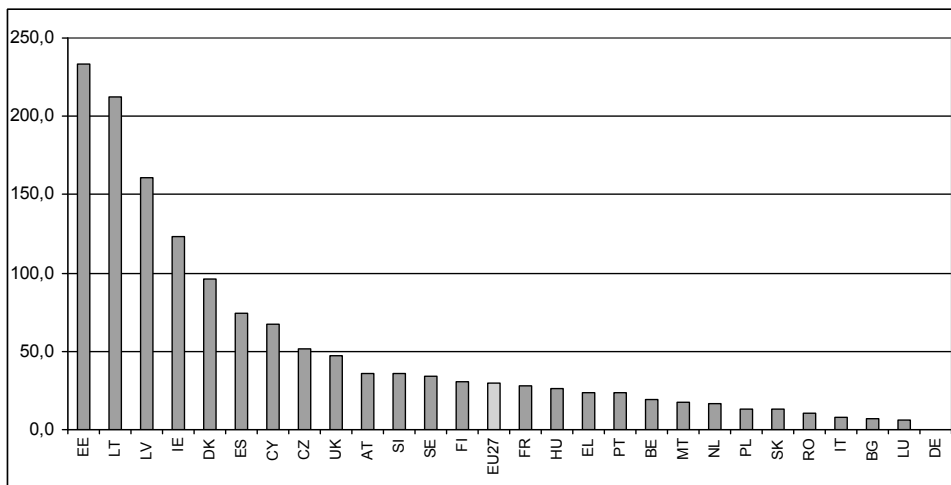
**Variation of GDP and of employment in the second quarter of 2009 vs. the second quarter of 2008 within the European Union Member States**

Tara	Δ %PIB	Δ %POC	EPOC/PIB	Tara	Δ %PIB	Δ %POC	EPOC/PIB
EU27	-4,9	-1,9	0,4	LT	-21,1	-6,7	0,3
BE	-3,7	-0,7	0,2	LU	-5,3	1,3	-0,2
BG	-4,9	-1,8	0,4	HU	-7,3	-4,5	0,6
CZ	-5,5	-1,4	0,3	MT	-3,0	-0,8	0,3
DK	-7,0	-2,6	0,4	NL	-5,2	-0,8	0,2
DE	-5,9	-0,1	0,0	AT	-4,5	-1,1	0,2
EE	-15,8	-10,2	0,6	PL	1,1	-0,7	-0,6
IE	-7,3	-8,3	1,1	PT	-3,7	-2,7	0,7
EL	-0,3	-1,0	3,3	RO	-8,3	-1,2	0,1
ES	-4,2	-7,1	1,7	SI	-9,0	-1,6	0,2
FR	-2,8	-1,2	0,4	SK	-5,4	-1,3	0,2
IT	-6,0	-0,9	0,2	FI	-8,9	-3,0	0,3
CY	-0,7	-0,5	0,7	SE	-6,1	-2,2	0,4
LV	-17,4	-13,1	0,8	UK	-5,5	-2,0	0,4

Source: EUROSTAT

In point of unemployment evolution, the Baltic states are the most affected by the economic recession. Countries as Denmark, Ireland or Great Britain, governed by very flexible employment security rules, also record significant unemployment rates.

**Diagram 1. Relative changes in the unemployed number in the second quarter of 2009 vs. the second quarter of 2008 within the European Union Member States**



*Source: EUROSTAT*

## Conclusions

Having in view the aforementioned, we draw the following conclusions:

- The current economic context requires an efficient and integrated approach of flexicurity in all EU Member States.

- On short term, flexicurity strategies may help people let the unemployment and income cut fears aside by fostering and facilitating transitions on the labour market. Internal flexibility facilitates job security and reduces the unemployment flow, therefore providing the companies with the necessary workforce for economic growth times.

- Given the increased unemployment rates, the workforce demand/supply correlation is crucial. Better employability requires improved competences for an optimum adjustment to rapid technological changes.

- The disadvantaged will be the most affected on the current economic recession background. The activation and social inclusion policies, including the professional training ones, are essential for avoiding long-term unemployment.

In this context, the following steps must be taken on short and medium term:

- reduced segmentation, harmonized regulations on permanent and fixed term contracts and rapid implementation of the regulation on temporary employment agencies;

- improving the unemployed competences in order to meet the labour market requirements;

- granting job subsidies and implementing rapid equivalent employment procedures;

- reduced marginal tax rate for people with low paid jobs (see unemployment trap) to improve the demand.

The initiative called “An agenda for new competences and new jobs” of the 2020 European Strategy highlights that at the EU level, the Commission will focus on “defining and implementing the second stage of the flexicurity plan together with the social partners in order to identify ways to improve the economic transactions management, to fight unemployment and to increase employment”<sup>10</sup>.

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<sup>10</sup> Europe 2020: A strategy for smart, sustainable and inclusive growth